REPORT OF EXAMINATION
OF THE

REPUBLIC INDEMNITY COMPANY
OF CALIFORNIA

AS OF
DECEMBER 31, 2008

Participating State
and Zone:

California

Filed January 21, 2010

TABLE OF CONTENTS

Los Angeles, California
November 13, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

REPUBLIC INDEMNITY COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at its home office located at 15821 Ventura Boulevard, Encino, California 91436.

SCOPE OF EXAMINATION

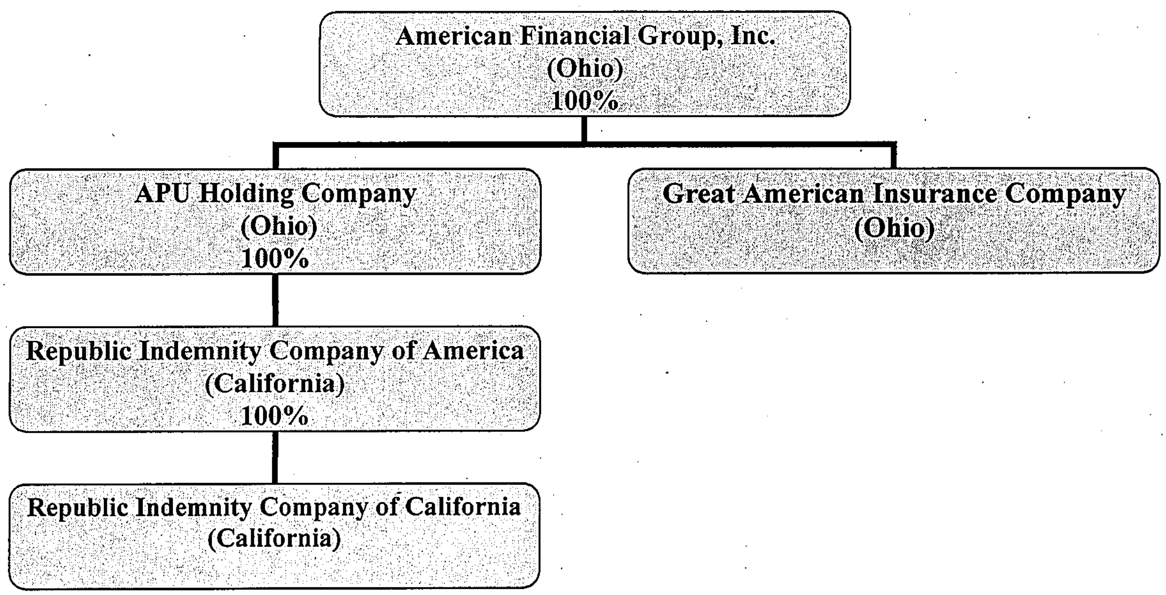
The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2008. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's parent, Republic Indemnity Company of America.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

MANAGEMENT AND CONTROL

Ultimate control of the Company is maintained by American Financial Group, Inc. The following abbreviated organizational chart depicts the Company's relationship within the holding company system:



Management of the Company is vested in a nine-member board of directors elected annually. A listing of the members of the board and principal officers serving as of December 31, 2008 follows:

Directors

Name and Residence	Principal Business Affiliation
Gary J. Gruber Cincinnati, Ohio	Senior Vice President Great American Insurance Company
David Harkins Westlake Village, California	Senior Vice President - Underwriting Republic Indemnity Company of America
Karen Holley Horrell Cincinnati, Ohio	Senior Vice President Great American Insurance Company
Keith A. Jensen Cincinnati, Ohio	Executive Vice President Great American Insurance Company
Donald D. Larson Cincinnati, Ohio	Executive Vice President Great American Insurance Company
Dwayne T. Marioni Novato, California	President and Chief Executive Officer Republic Indemnity Company of America
David P. Mitchell Agoura Hills, California	Senior Vice President – Claims Republic Indemnity Company of America
Dion G. Riley Chatsworth, California	Senior Vice President, Chief Financial Officer and Treasurer Republic Indemnity Company of America
David J. Witzgall Villa Hills, Kentucky	Senior Vice President Great American Insurance Company

Principal Officers

Name	Title
Gary Gruber	Chairman
Dwayne T. Marioni	President and Chief Executive Officer
Dion G. Riley	Senior Vice President, Chief Financial Officer, and Treasurer

Name	Title
Melinda A. Kreger	Vice President and Secretary
Frank M. Ceraolo	Senior Vice President
David Harkins	Senior Vice President
Steven A. Gallacher	Senior Vice President
David P. Mitchell	Senior Vice President

Management Agreements

Investment Services Agreement: The Company is party to an Investment Services Agreement with American Money Management Corporation (AMMC), an affiliated entity, as amended as of January 1, 1996. Under the terms of the agreement, AMMC provides management and accounting services related to the Company's investment portfolio. Expenses incurred by AMMC for services under this agreement are to be charged and paid quarterly and pro-rated on the basis of the proportion of the Company's portfolio value to the total portfolio value administered by AMMC. During the years 2005, 2006, 2007, and 2008, the Company paid AMMC $7,636, $9,972, $15,779, and $12,291, respectively.

Claims Services Agreement: Effective August 30, 2006, the Company and its affiliate, Republic Indemnity of America (RICA), entered into a Claims Service Agreement with Great American Insurance Company (GAI). Under the terms of the agreement, GAI provides investigation, handling and adjustment of claims arising out of incidental workers' compensation insurance policies issued by GAI at the request of the Company covering risks in states where the Company is not licensed. The agreement stipulates that the Company is obligated to pay GAI fees equal to the sum of costs and expenses incurred by GAI in providing the services. Since the inception of the agreement through year-end 2008, GAI has been paid a combined total of $89,401 for services provided to the Company and its parent.

Authorization to implement the aforementioned agreement was granted by the California Department of Insurance (CDI) via a letter dated August 14, 2007. In the authorization for use letter, the CDI reminded the Company that agreements should not be executed in advance of the CDI's authorization under California Insurance Code (CIC) Section 1215.5(b)(4). The Company is hereby reminded that it must observe the requirements stipulated in CIC Section 1215.5(b)(4).

Tax Allocation Agreement: Effective December 31, 2005, a tax allocation agreement was implemented between American Financial Group, Inc. (AFG) and certain specified subsidiaries including the Company. This agreement supersedes the previous tax allocation agreement which had been in effect since 1974. Under the terms of the agreement, federal income tax returns are filed on a consolidated basis on behalf of AFG and the specified subsidiaries. The Company's tax liability or refund is determined as if the Company was filing on a separate basis. Approval of the new tax allocation agreement was granted by the CDI on November 29, 2005.

General Service Agreement: Effective January 1, 1996, the Company and RICA have been subject to a General Services Agreement by and between 49 affiliated insurance companies (collectively referred to as the Parties) of the GAIC holding group. Under the terms of the agreement, the Parties furnish various services such as printing, office duplicating, telecommunications, purchasing, personnel, administrative and data processing to each other. Charges for these services are based on actual cost. During the years 2005, 2006, 2007 and 2008, the Company was charged $118,180, $106,719, $99,149, and $126,678, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed to write various property and casualty coverages in the District of Columbia and the following 37 states:

Alabama	Illinois	Montana	South Dakota
Alaska	Indiana	Nebraska	Tennessee
Arizona	Iowa	Nevada	Texas
Arkansas	Kansas	New Mexico	Utah
California	Kentucky	North Carolina	Washington
Colorado	Louisiana	Ohio	West Virginia
Delaware	Maryland	Oklahoma	Wisconsin
Georgia	Michigan	Oregon	
Hawaii	Mississippi	Rhode Island	
Idaho	Missouri	South Carolina	

During 2008, the Company wrote $102.7 million of direct premiums consisting exclusively of workers' compensation business. Of the direct premiums written, $96.7 million (94.3%) was written in California. The Company ceased writing automobile coverages in 2006.

Workers' compensation business is written through 1,150 independent agents who target all risk classes except petroleum and mining. In recent years, the Company has focused on skilled classes and small "Main Street" retail operations, deemphasizing construction and other higher risk classes. The Company maintains branch offices in Englewood, Colorado; Henderson, Nevada; Phoenix, Arizona; Portland, Oregon; Richardson, Texas; and Encino, San Diego and San Francisco, California.

REINSURANCE

Intercompany Pooling Agreement

The Company and its parent, Republic Indemnity Company of America (RICA), are parties to an intercompany pooling agreement. Under the terms of the agreement, substantially all direct and assumed business written by the two companies is pooled. Premiums, losses, and expenses incurred are then reapportioned and shared by the Company and RICA in the proportions of 3% and 97%, respectively.

Ceded

The following is a summary of the Company's principal reinsurance agreements in-force as of December 31, 2008:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Workers' Compensation XOL:			
1st Excess of Loss	Swiss Reinsurance America Corporation – Authorized Reinsurer (50%) Republic Indemnity Group (50%)	$1 million	$1 million (As a result of the Group's 50% participation interest in the agreement , the reinsurer's maximum liability is limited to 50% of $1 million or $500,000)
2nd Excess of Loss	Swiss Reinsurance America Corporation – Authorized Reinsurer (60%) Republic Indemnity Group (40%)	$2 million	$3 million (As a result of the Group's 40% participation interest in the agreement, the reinsurer's maximum liability is limited to 60% of $3 million or $1.8 million)
3rd Excess of Loss	Swiss Reinsurance America Corporation – Authorized Reinsurer (85%) Lloyds Syndicate #1084 – Authorized Reinsurer (5%) Catlin Underwriting – Authorized Reinsurer (5%) Hannover Ruckversicherungs Aktiengesellschaft – Authorized Reinsurer (5%)	$5 million	$5 million
Workers' Compensation Catastrophe XOL:			
1st Excess of Loss	Lloyds Syndicate #2987 – Authorized Reinsurer (20%) Aspen Insurance UK Ltd - Authorized Reinsurer (20%) Various Authorized and Unauthorized Reinsurers (60%)	$10 million	$10 million
2nd Excess of Loss	Partner Reinsurance Company of the US – Authorized Reinsurer (10%) Munich Reinsurance – Authorized Reinsurer (10%) Various Authorized and Unauthorized Reinsurers (80%)	$20 million	$30 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
3rd Excess of Loss	Munich Reinsurance – Authorized Reinsurer (25%) Various Authorized and Unauthorized Reinsurers (75%)	$50 million	$50 million
4th Excess of Loss	Imagine Underwriting APS on behalf of Lloyds - Authorized Reinsurer (21%) Catlin Underwriting - Authorized Reinsurer (10%) Various Authorized and Unauthorized Reinsurers (69%)	$100 million	$50 million
Workers' Compensation Terrorism XOL:			
1st Excess of Loss	Tokio Millenium Reinsurance Ltd – Unauthorized Reinsurer (25%) Validus Reinsurance Ltd – Unauthorized Reinsurer (12%) Various Authorized and Unauthorized Reinsurers (13%) Company retains 50% of $10 million	$10 million	$10 million
2nd Excess of Loss	Tokio Millenium Reinsurance Ltd- Unauthorized Reinsurer (25%) Validus Reinsurance Ltd – Unauthorized Reinsurer (12%) Various Authorized and Unauthorized Reinsurers (13%) Company retains 50% of $30 million	$20 million	$30 million
3rd Excess of Loss	Tokio Millenium Reinsurance Ltd – Unauthorized Reinsurer (25%) Validus Reinsurance Ltd - Unauthorized Reinsurer (12%) Various Authorized and Unauthorized Reinsurers (13%) Company retains 50% of $50 million	$50 million	$50 million
Excess Workers' Compensation XOL:			

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1st Excess of Loss	Hannover Ruckversicherungs Aktiengesellschaft – Authorized Reinsurer (50%) Catlin Underwriting – Authorized Reinsurer (30%) Company retains 20% of $2 million	$250,000	$1.75 million
2nd Excess of Loss	Hannover Ruckversicherungs Aktiengesellschaft-Authorized Reinsurer (35%) Brit-Lloyds Syndicate 2987 – Authorized Reinsurer (20%) Paris Reinsurance-Unauthorized Reinsurer (20%) Various Authorized and Unauthorized Reinsurers (25%)	$2 million	$3 million
3rd Excess of Loss	Hannover Ruckversicherungs Aktiengesellschaft-Authorized Reinsurer (45%) Brit-Lloyds Syndicate 2987 – Authorized Reinsurer (20%) Liberty-Lloyds Syndicate 4472 – Authorized Reinsurer (15%) Various Authorized and Unauthorized Reinsurers (20%)	$5 million	$5 million
4th Excess of Loss	Hannover Ruckversicherungs Aktiengesellschaft – Authorized Reinsurer (15%) Brit-Lloyds Syndicate 2987 – Authorized Reinsurer (20%) Liberty-Lloyds Syndicate 4472 – Authorized Reinsurer (15%) Various Authorized and Unauthorized Reinsurers (50%)	$10 million	$10 million
5th Excess of Loss	Hannover Ruckversicherungs Aktiengesellschaft – Authorized Reinsurer (15%) Brit-Lloyds Syndicate 2987 – Authorized Reinsurer (13%) Catlin Underwriting – Authorized Reinsurer (20%) Various Authorized and Unauthorized Reinsurers (52%)	$20 million	$30 million

Retroactive Reinsurance

Effective April 1, 1998, the Company, and its parent, Republic Insurance Company of America (RICA),entered into a retroactive reinsurance agreement with Converium, Ltd. (Converium).* Under the terms of the agreement, the Company and RICA ceded 95% of $60 million, in excess of $390 million, of its loss and loss adjustment expense reserves to Converium. The agreement pertains to workers' compensation losses unpaid as of March 31, 1998, for insured events with occurrence dates from January 1, 1988 through March 31, 1988. The total consideration paid by the Company and RICA for the agreement was $14.7 million.

In accordance with the precepts of the Statement of Statutory Accounting Principles No. 62, the amount of retroactive reinsurance reserves ceded ($559,250) is reported in the Company's 2008 Annual Statement as a contra-liability under the heading "Aggregate write-ins for liabilities," and the surplus gain resulting from retroactive reinsurance ($559,250) is reflected as "Special surplus from retroactive reinsurance loss portfolio."

ACCOUNTS AND RECORDS

Information Systems Controls

A consulting firm contracted by the California Department of Insurance conducted a review of the Company's information system general controls. As referenced in the consultant's report, it is recommended that the Company formally document the annual review and update of its business continuity/disaster recovery plan.

*Effective September 17, 2007, Coverium, Ltd. changed its name to SCOR Holdings (Switzerland) Ltd.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$28,948,522	$	$28,948,522	
Cash and short-term investments	(2,804,643)		(2,804,643)	
Investment income due or accrued	433,148		433,148	
Accrued retrospective premiums	1,508	151	1,357	
Net deferred tax asset	1,402,841	750,678	652,163	
Guaranty funds receivable or on deposit	310		310	
Receivables from parent, subsidiaries and affiliates	4,990,805		4,990,805	
Aggregate write-ins for other than invested assets	8,994,974		8,994,974	
Total assets	$41,967,465	$ 750,829	$41,216,636	
Liabilities, Surplus and Other Funds				
Losses			$14,247,019	(1)
Loss adjustment expenses			2,424,957	(1)
Commissions payable, contingent commissions and other similar charges			62,139	
Other expenses			280,936	
Taxes, licenses and fees			(1,662)	
Current federal and foreign income taxes			38,107	
Unearned premiums			836,354	
Aggregate write-ins for liabilities			(518,105)	(2)
Total liabilities			17,369,745	
Aggregate write-ins for special surplus funds		$ 559,250		
Common capital stock		3,525,000		
Gross paid in and contributed surplus		6,395,000		
Unassigned funds (surplus)		13,367,641		
Surplus as regards policyholders			23,846,891	
Total liabilities, surplus and other funds			$41,216,636	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income		
Premiums earned		$ 6,133,071
Deductions:		
Losses incurred	$ 1,635,792	
Loss expenses incurred	1,247,070	
Other underwriting expenses incurred	2,134,240	
Total underwriting deductions		5,017,102
Net underwriting gain		1,115,969
Investment Income		
Net investment income earned	$ 1,352,342	
Net realized capital losses	(233,840)	
Net investment gain		1,118,502
Other Income		
Net loss from agents' or premium balances charged off	$ (9,074)	
Aggregate write-ins for miscellaneous income	197	
Total other income		(8,877)
Net income before dividends to policyholders and before federal income taxes		2,225,594
Dividends to policyholders		94,975
Federal and income taxes incurred		780,102
Net income		$ 1,350,517

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		$22,416,831
Net income	$ 1,350,517	
Change in net deferred income tax	66,575	
Change in nonadmitted assets	18,017	
Surplus adjustments – Paid in	(3,049)	
Aggregate write-ins for losses in surplus	(2,000)	
Change in surplus as regards policyholders		1,430,060
Surplus as regards policyholders, December 31, 2008		$23,846,891

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2008

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31. 2004 per Examination			$14,697,415
Net income	$8,402,909	$	
Change in net deferred income tax		118,968	
Change in nonadmitted assets and related items	177,535		
Aggregate write-ins for gains in surplus	688,000		
Totals	$9,268,444	$ 118,968	
Net increase in surplus as regards policyholders			9,149,476
Surplus as regards policyholders, December 31, 2008 per Examination			$23,846,891

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on the analysis by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2008 reserves for losses and loss adjustment expenses were determined to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 4): The Company is hereby reminded that it must observe the requirements stipulated in California Insurance Code Section 1215.5(b)(4).

Accounts and Records – Information System Controls (Page 10): It is recommended that the Company formally document the annual review and update of its business continuity/disaster recovery plan.

Previous Report of Examination

Management and Control (Page 4): For the purpose of complying with California Code Section 1215 (b)(4), it was recommended that the Company obtain approval for its executed workers' compensation handling agreement. Authorization for implementation of a replacement agreement was granted by the California Department of Insurance on August 14, 2007.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination is hereby acknowledged.

Respectfully submitted,

/S/

David A. Fischman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California